

Regulatory Approach for BC Hydro

Issue

Government ownership of BC Hydro, the monopoly electric utility in most of British Columbia, has historically created tension between “arms length” utility regulation and advancing public policy objectives.

Background

BC Hydro rates and other activities were approved by Cabinet from 1962 until the proclamation of the *Utilities Commission Act* (UCA) in 1980. The UCA expanded utility regulation to include BC Hydro. Only investor-owned utilities were regulated up to that point.

The UCA created and established the authority of the British Columbia Utilities Commission (Commission) and set out its mandate. The Commission is an independent regulatory tribunal under the responsibility of the Minister of Justice. The primary role of the Commission is to protect the interests of ratepayers while allowing utility shareholders an opportunity to earn a fair return on their invested capital.

Government has regulatory powers under the UCA that effectively pre-empt the decision-making powers of the Commission under certain circumstances. These powers exist to ensure elected officials retain the ability to make decisions deemed to be in the broader provincial public interest. Government can also introduce statutes to achieve policy goals when powers under the UCA are deemed insufficient.

The use of legislative authority to achieve Government objectives has been a feature of electricity policy since the creation of the Commission.

- **1982:** BC Hydro requests a 30% rate increase to cover the increased borrowing costs for system build out. Government passes the *Rate Restraint Act* to limit rate increases to 6%.
- **1996:** BC Hydro rates capped by the *Tax and Consumer Rate Freeze Act*. Rates were subsequently frozen in 1998 by the *BC Hydro and Power Authority Rate Freeze and Profit Sharing Act* after customer groups requested rate reductions.
- **2010:** Government passes the *Clean Energy Act* (CE Act) that sets Provincial Energy Objectives (PEOs) for the Commission to consider in its decision-making and exempts key projects such as Site C, Northwest Transmission Line and Smart Meters from Commission review.

Discussion

Government is BC Hydro's only shareholder. However, it also sets out the legislative framework for BC Hydro before the Commission. This could be considered a conflict. This raises the question of what an effective regulatory regime for BC Hydro would look like given these tensions?

Government must strike a very fine balance between ratepayer and taxpayer interests under the current model. There is an inherent trade-off between the two groups. Government has used BC Hydro as an economic development driver since its creation in 1962. It has more recently used it as an instrument to advance environmental and social policy. As noted in the BC Hydro Review, BC Hydro also provides funds to general revenue through the dividend, water rentals and other resource tenures (Land Act, Forest Act, etc.).

However, Government has other means to achieve these objectives (e.g., legislation, spending, taxation, etc.) should it choose to use them. This raises two questions. First, to what extent BC Hydro ratepayers should support the achievement of Government objectives? Second, under what, if any, circumstances is it appropriate to do so?